



LINDA S. ADAMS  
SECRETARY FOR ENVIRONMENTAL  
PROTECTION

# CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD



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September 10, 2009

Beverly McCullough, Recycling Program Coordinator  
City of Modesto  
Parks, Recreation & Neighborhoods Department  
1010 10<sup>th</sup> Street  
Modesto, CA 95363

SUBJECT: FINAL AUDIT REPORT – WASTE TIRE ENFORCEMENT  
ASSISTANCE GRANTS, TEA11-04-0011 AND  
TEA12-05-0002

Dear Ms. McCullough:

Enclosed is the final audit report of the City of Modesto regarding the Waste Tire Enforcement Assistance Grants awarded for the periods June 30, 2005 through June 30, 2007. The audit was planned and performed to include a review of internal controls, receipts, expenditures, and compliance with the grant agreement provisions.

The audit disclosed the following findings:

1. Personnel Cost Overcharge, TEA11-04-0011; and
2. Indirect Cost Overcharge, TEA11-04-0011.

The response by the City of Modesto, dated July 30, 2009, to the draft audit report has been included in this final report, along with our evaluation of the response. The response addressed your corrective action for Finding 1. However, the response to Finding 2 did not provide adequate corrective action. The Grants Program is receiving a copy of this letter to ensure that Finding 2 is properly addressed.

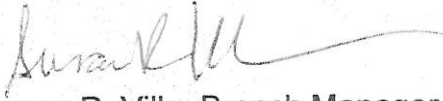
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Beverly McCullough  
September 10, 2009  
Page 2

If you have any questions regarding this report, please contact Carl Coaxum, Auditor, at (916) 322-2535 or [ccoaxum@ciwmb.ca.gov](mailto:ccoaxum@ciwmb.ca.gov).

Sincerely,



Susan R. Villa, Branch Manager  
Fiscal Services Branch  
Administration and Finance Division

Enclosure

cc: Greg Nyhoff, City Manager, City of Modesto  
Julie Hannon, PRND Director, City of Modesto  
Jocelyn Reed, Solid Waste Program Manager, City of Modesto  
Lorraine Van Kekerix, Program Manager, Compliance Evaluation and  
Enforcement Division, CIWMB  
Jim Lee, Branch Manager, Tire Facilities and Evaluation Branch, CIWMB  
Barbara Strough, Supervisor, Tire Facilities North, CIWMB  
Mary LeClaire, Grant Manager, Tire Facilities North, CIWMB  
Carl Coaxum, Auditor, Audits and Evaluations Unit, CIWMB  
Linh Johnson, Auditor, Audits and Evaluations Unit, CIWMB  
CIWMB Audits and Evaluations Unit Files

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**A GRANT AUDIT**

**City of Modesto**

**Waste Tire Enforcement Assistance Grants**

**Final Audit Report**

**Grants: TEA 11-04-0011  
and TEA 12-05-0002**

**For the Period June 30, 2005  
through June 30, 2007**

**Prepared By:  
California Integrated Waste Management Board  
Audits and Evaluations Unit**

**September 2009**

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## AUDIT REPORT

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**Audit Report  
City of Modesto  
Waste Tire Enforcement Assistance Grant Program  
Period Audited: June 30, 2005 through June 30, 2007**

Audit Start Date: May 4, 2009

Location: Parks, Recreation & Neighborhoods Department  
1010 10<sup>th</sup> Street  
Modesto, CA 95363

Contact Person: Beverly Mccullough, Recycling Program Coordinator

Phone Number: (209) 577-5495

E-Mail Address: bmccullough@modestogov.com

Auditor: Carl Coaxum

## **SUMMARY**

The California Integrated Waste Management Board (CIWMB), Audits and Evaluations Unit, performed an audit of the City of Modesto regarding the Waste Tire Enforcement Assistance Grant Program. The audit included a review of internal controls, receipts, expenditures, and compliance with the provisions relating to grant agreement numbers TEA 11-04-0011 and TEA 12-05-0002.

## **BACKGROUND**

The City of Modesto (City), a political subdivision of the State of California governed by an elected Board of Supervisors, exercises the powers specified by the Constitution and statutes of the State. The City's reporting entity includes all significant organizations, departments, and agencies over which the City's Board exercises oversight and budgeting responsibilities. The City's Parks, Recreation & Neighborhoods Department has general responsibility for the grant projects. The integrated waste management enforcement programs are primarily carried out through Local Enforcement Agencies and the California Integrated Waste Management Board acting or serving as the Waste Tire Enforcement Assistance (TEA).

The CIWMB receives an annual appropriation from the California Tire Recycling Management Fund to administer the Tire Recycling Act [Chapter 17 as added by SB 937 (Vuich), Statutes of 1990, Chapter 35] and related legislation. The TEA grant provides funding to solid waste LEA as well as city and county agencies in California for waste tire enforcement activities.

Chapter 17, Article 5 (Financial Provisions), Section 42889(d) states in part, "To pay the costs associated with the development and enforcement of regulations relating to the storage of waste tires and used tires. The board shall consider designating a city, county, or city and county as the enforcement authority of regulations relating to the storage of waste tires and used tires, as provided in subdivision (b) of Section 42963."

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

The audit objective was to verify whether the program related costs, reimbursed by the CIWMB to the City, were reasonable, allowable, and allocable in accordance with the fiscal requirements and other provisions of the grant agreements as well as applicable Federal and State regulations.

The audit scope included, but was not limited to a review and evaluation of the adequacy and accuracy of the documents submitted to the CIWMB by the City in support of the claim for eligibility.

The audit was conducted in accordance with *Government Auditing Standards*. The standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## **CONCLUSION**

The following audit findings were identified:

### **FINDING 1: Personnel Cost Overcharge**

**Condition:** The City did not comply with the fiscal requirements of Grant Agreement TEA11-04-0011. Specifically, for payment request #1, the City charged \$32.53 per hour for an employee's personnel costs; an overcharge of \$0.62 per hour. For payment request #2, the City charged \$33.00 per hour; an overcharge of \$1.09 per hour.

**Criteria:** The Grant Agreement Budget specifies a maximum allowable cost per hour of \$31.91 for personnel costs.

**Recommendation:** The City should remit \$1,424.01 in overcharged personnel costs to the CIWMB.



## **FINDING 2: Indirect Cost Overcharge**

- Condition:** The City did not comply with the fiscal requirements of Grant Agreement TEA11-04-0011. Specifically, for payment request #1, the City charged 13% for indirect costs; an overcharge of 3%. For payment request #2, the City charged 11% for indirect costs; an overcharge of 1%.
- Criteria:** The Grant Agreement Budget specifies that miscellaneous/indirect costs shall not exceed a maximum limit of 10%.
- Recommendation:** The City should remit \$647.23 in overcharged indirect costs to the CIWMB.

### **RESTRICTED USE**

This report is intended for the information and use of the CIWMB and City management. However, this report is a matter of public record and distribution is not limited.

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## STATEMENT OF REVENUE AND EXPENDITURES

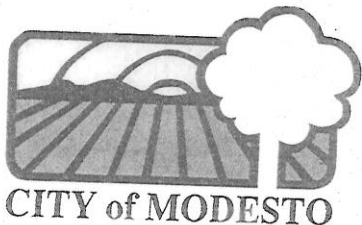
**City of Modesto**  
**Waste Tire Assistance Grant TEA11-04-011**  
**For the Period June 30, 2005 through June 30, 2006**

	<u>Claimed</u>	<u>Audited</u>	<u>Questioned</u>	
<b>Revenue:</b>				
Grant Requests #1 & #2	\$61,178.41	\$61,178.41	\$0.00	
Less 10%	<u>\$6,117.84</u>	<u>\$6,117.84</u>	<u>\$0.00</u>	
 Total Revenue	 <u><u>\$67,296.25</u></u>	 <u><u>\$67,296.25</u></u>	 <u><u>\$0.00</u></u>	
 <b>Eligible Expenditures:</b>				
Inspections	\$23,289.36	\$21,865.35	\$1,424.01	Finding 1
Surveillance	\$8,932.09	\$8,932.09	\$0.00	
Enforcement	\$0.00	\$0.00	\$0.00	
Education	\$4,394.80	\$4,394.80	\$0.00	
Training	\$4,753.17	\$4,753.17	\$0.00	
Reporting	\$4,034.78	\$4,034.78	\$0.00	
Equipment Costs	\$8,781.54	\$8,781.54	\$0.00	
Transportation Costs	\$531.75	\$531.75	\$0.00	
Indirect (Misc) Costs	\$6,460.92	\$5,813.69	\$647.23	Finding 2
Less 10%	<u>\$6,117.84</u>	<u>\$6,117.84</u>	<u>\$0.00</u>	
 Total Expenditures	 <u><u>\$67,296.25</u></u>	 <u><u>\$65,225.01</u></u>	 <u><u>\$2,071.24</u></u>	

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## **GRANTEE'S RESPONSE TO AUDIT REPORT**

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*Parks,*

*Recreation and  
Neighborhoods  
Department*

*1010 Tenth Street  
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P.O. Box 642  
Modesto, CA 95353  
209/577-5344  
209/579-5077 Fax*

*Hearing and Speech  
Impaired Only  
TDD 209/526-9211*

July 30, 2009

Carl Coaxum, Auditor  
California Integrated Waste Management Board  
P.O. Box 4025, Mail Stop 19A  
Sacramento, CA 95812-4025

**RE: Draft Audit Report Response for TEA11-04-0011**

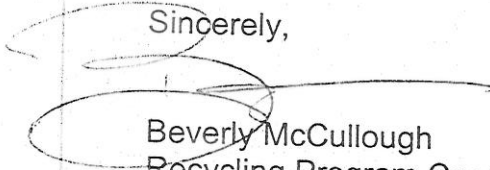
Dear Carl:

We received the CIWMB Draft Audit Report for grants TEA11-04-0011 and TEA12-05-0002 and have reviewed its contents. The report discusses 2 findings and recommendations, both related specifically to TEA11-04-0011. No findings or recommendations were mentioned for TEA12-05-0002.

Thank you for allowing us the opportunity to provide a response to the audit. Our response to the findings and recommendations are attached. Please include them with the final audit report.

If you have any questions, please do not hesitate to contact me at 209/577-5495.

Sincerely,

  
Beverly McCullough  
Recycling Program Coordinator

CC: Greg Nyhoff, City Manager, City of Modesto  
Julie Hannon, PRND Director, City of Modesto  
Jocelyn Reed, SWM Manager, City of Modesto





**CITY OF MODESTO RESPONSE TO  
CIWMB DRAFT AUDIT REPORT – WASTE TIRE ENFORCEMENT GRANTS  
TEA 11-04-0011 AND TEA 12-05-0002  
July 30, 2009**

**FINDING 1 PERSONNEL COST OVERCHARGE**

**Condition:** City did not comply with the grant agreement's fiscal requirements in its administration of grant TEA 11-01-0011. Specifically, for payment request #1, the City charged \$32.53 per hour for an employee's personnel costs; an overcharge of \$0.62 per hour. For payment request #2, the City charged \$33.00 per hour; an overcharge of \$1.09 per hour.

**Criteria:** Pursuant to the grant agreement budget, the maximum allowable personnel cost per hour was \$31.91 per hour.

**Recommendation:** The City should remit the overcharge of \$1,424.01 to CIWMB.

**1. Payment request #1.** The City claimed personnel costs for 3 different staff members.

Two staff members conducted grant inspections, investigations, searches, referrals, training and report writing (Tasks 1-5) which totaled \$17,229.76 and which fall into the category personnel costs. Philip Irons was paid \$16,738.55 (544.8 hours at \$30.7270 per hour) while Nathan Gorth was paid \$491.21 (14.5 hours at \$33.8765 per hour). The third staff member, Beverly McCullough, conducted training (Task 4), which is a personnel cost. The training costs totaled \$306.25 (6.5 hours at \$47.1150 per hour).

In addition to charging 6.5 hours of Task 4 personnel costs, Beverly McCullough also provided administration and supervision (Task 8), which are Miscellaneous/Indirect Costs. The Miscellaneous/Indirect Cost portion totaled \$2,803.34 (59.5 hours at \$47.1150 per hour). Beverly McCullough was paid for a total of 66 hours.

Personnel costs averaged \$30.99 per hour, or \$0.92 less than the maximum allowable cost of \$31.91 per hour.

<b>Table A – Average Hourly Rate per City of Modesto – Personnel Costs</b>				
<b>Employee Name</b>	<b>Hourly Rate</b>	<b>Total Hours</b>	<b>Total Cost</b>	<b>Task #'s</b>
Philip Irons	\$30.7270	544.8	\$16,738.55	1-5
Nathan Gorth	\$33.8765	14.5	\$491.21	4
Beverly McCullough	\$47.1150	6.5	\$306.25	4
<b>Total</b>		<b>565.8</b>	<b>\$17,536.01</b>	
<p style="text-align: center;">Total Cost/Total Hours = Average Hourly Rate  \$17,536.01/565.8 = \$30.9933  (\$0.9167 less than the maximum allowable cost per hour of \$31.91)</p>				



Per the grant application, administration and supervision costs were Task 8 activities, and are considered Miscellaneous/Indirect Costs. Miscellaneous/Indirect Costs were not to be considered part of the personnel costs. No hourly rate was calculated or listed for this portion of the grant in the application. Miscellaneous/Indirect Costs were calculated at a 10% maximum cap for activities listed on Worksheets A & B. The City of Modesto was awarded \$7,149.00 for Task 8 activities.

<b>Table B – Miscellaneous/Indirect Costs per City of Modesto</b>				
<b>Employee Name</b>	<b>Hourly Rate</b>	<b>Total Hours</b>	<b>Total Cost</b>	<b>Task #'s</b>
Beverly McCullough	\$47.1150	59.5	\$2,803.34	8
<b>Total</b>		<b>59.5</b>	<b>\$2,803.34</b>	

Based on the audit letter, It appears that the total cost for all 3 employees was erroneously used to calculate an average hourly wage of \$32.53 per hour for grant personnel costs. Only a small portion of expenses for Beverly McCullough should have been included (as shown in Table A) when calculating the average hourly rate for personnel costs. The following table illustrates how we believe the average hourly rate was incorrectly calculated.

<b>Table C – Average Hourly Rate per CIWMB</b>				
<b>Employee Name</b>	<b>Hourly Rate</b>	<b>Total Hours</b>	<b>Total Cost</b>	<b>Task #'s</b>
Philip Irons	\$30.7270	544.8	\$16,738.55	1-5
Nathan Gorth	\$33.8765	14.5	\$491.21	4
Beverly McCullough	\$47.1150	66.0	\$3,109.59	4, 8
<b>Total</b>		<b>625.3</b>	<b>\$20,339.35</b>	
<p style="text-align: center;">Total Cost/Total Hours = Average Hourly Rate  <b>\$20,339.35/625.3 = \$32.53</b></p>				

**2. Payment request #2.** The City of Modesto claimed costs for 2 different staff members.

One member, Phillip Irons, conducted grant inspections, investigations, searches, referrals, training and report writing (Tasks 1-5), which are personnel costs. The expense totaled \$27,716.70 (875.75 hours at \$31.6491 per hour, or \$0.26 less than the maximum allowable cost of \$31.91 per hour).

<b>Table D – Average Hourly Rate per City of Modesto- Personnel Costs</b>				
<b>Employee Name</b>	<b>Hourly Rate</b>	<b>Total Hours</b>	<b>Total Cost</b>	<b>Task #'s</b>
Philip Irons	\$31.6491	875.75	\$27,716.70	1-5
<b>Total</b>		<b>875.75</b>	<b>\$27,716.70</b>	
<p style="text-align: center;">Total Cost/Total Hours = Average Hourly Rate  <b>\$27,716.70/875.75 = \$31.6491</b>  <b>(\$0.2609 less than the maximum allowable cost per hour of \$31.91)</b></p>				



As with Payment Request 1, above, per the grant application, administration and supervision costs were Task 8 activities, and are considered Miscellaneous/Indirect Costs. Miscellaneous/Indirect Costs were not to be considered part of the personnel costs. No hourly rate was calculated or listed for this portion of the grant in the application. Miscellaneous/Indirect Costs were calculated at a 10% maximum cap for activities listed on Worksheets A & B. The City of Modesto was awarded a total of \$7,149.00 for Task 8 activities

<b>Table E – Miscellaneous/Indirect Costs per City of Modesto</b>				
<b>Employee Name</b>	<b>Hourly Rate</b>	<b>Total Hours</b>	<b>Total Cost</b>	<b>Task #'s</b>
Beverly McCullough	\$48.7673	75.0	\$3,657.55	8
<b>Total</b>		<b>75.0</b>	<b>\$3,657.55</b>	

Again, based on the audit letter, it appears that the total cost for the 2 employees was erroneously used to calculate an average hourly wage of \$33.00 per hour for grant personnel costs. No part of the expenses for Beverly McCullough should have been included (as shown in Table D) when calculating the average hourly rate for personnel costs. The following table illustrates how we believe the average hourly rate was incorrectly calculated.

<b>Table F – Average Hourly Rate per CIWMB</b>				
<b>Employee Name</b>	<b>Hourly Rate</b>	<b>Total Hours</b>	<b>Total Cost</b>	<b>Task #'s</b>
Philip Irons	\$31.6491	875.75	\$27,716.70	1-5
Beverly McCullough	\$48.7673	75.0	\$3,657.55	8
<b>Total</b>		<b>950.75</b>	<b>\$31,374.25</b>	
<p style="text-align: center;">Total Cost/Total Hours = Average Hourly Rate  <b>\$31,374.25/950.75 = \$32.9994 (rounded to \$33.00)</b></p>				

In an effort to verify and explain all grant expenses, it was necessary to list all staff expenses on the required Personnel Expenditure Summary forms provided by CIWMB and include the cost details with each payment request. The grant did not offer any optional forms to track or otherwise justify Miscellaneous/Indirect Costs in any other way, thus they had to be included with the other personnel expenditures.

The City of Modesto attempts to be as accurate as possible with projected program costs at the time of grant submission. However, it is not always possible to project exact hourly rates or fringe costs for a future time period. As a result, actual pay scales often differ from what is projected in the grant application. Typically, the City of Modesto reports actual program costs in grant reports, even though they may differ from projected ones in the application. This is done for two reasons: 1) It allows us to be as accurate as possible so that all parties clearly understand the total cost of doing business. 2) It protects the City from generating unnecessary expenses that will not be recovered via the grant.

The City of Modesto goes to great measures to make sure we do not overcharge our grants in any way. If our actual staff costs are more per hour than projected, we will typically reduce



the number of hours allowed toward the program to keep the overall costs within the awarded grant budget.

**Thus, we do not agree with Finding 1 that any personnel cost overcharge occurred and we believe that the City of Modesto should not have to remit \$1,424.01 to CIWMB as recommended in Finding 1.**





## **FINDING 2    INDIRECT COST OVERCHARGE**

**Condition:** City did not comply with the grant agreement's fiscal requirements in its administration of grant TEA 11-01-0011. Specifically, for payment request #1, the City charged 13% for indirect costs; an overcharge of 3%. For payment request #2, the City charged 11% for indirect costs; an overcharge of 1%.

**Criteria:** Pursuant to the grant agreement budget, the maximum allowable Miscellaneous/Indirect Costs not to exceed 10%.

**Recommendation:** The City should remit the overcharge of \$989.18 to CIWMB.

The City of Modesto was awarded a total of \$7,149.00 for Task 8, Miscellaneous/Indirect Costs (<10% of Worksheet A & B activities) for TEA11-04-0011. The City sought reimbursement for a total of \$6,460.93 for this task, or \$688.07 less than the amount awarded.

**1. Payment request #1.** The City requested a total of \$24,364.83 for expenses incurred during the first 2 quarters of the grant cycle. Of that, only \$2,803.34 were categorized as activities for Task 8, Miscellaneous/Indirect Costs. Task 8, Miscellaneous/Indirect Costs for the first payment request represented 11.5% of the total expenses claimed.

<b>Table G – Miscellaneous/Indirect Cost Percentage per City of Modesto</b>				
<b>Employee Name</b>	<b>Hourly Rate</b>	<b>Total Hours</b>	<b>Total Cost</b>	<b>Task #'s</b>
Beverly McCullough	\$47.1150	59.5	\$2,803.34	8
<b>Total</b>		<b>59.5</b>	<b>\$2,803.34</b>	
$\begin{aligned} &(\text{Total Misc./Indirect Costs}) / (\text{Total Payment Request}) = \\ &\text{Miscellaneous/Indirect Cost Percentage} \\ &\$2,803.34 / \$24,364.83 = 11.5\% \end{aligned}$				

**2. Payment request #2.** The City requested a total of \$36,813.58 for expenses incurred during the last 2 quarters of the grant cycle. Of that, only \$3,657.55 was categorized as activities for Task 8, Miscellaneous/Indirect Costs. Task 8, Miscellaneous/Indirect Costs for the second payment request represented 9.93% of the total expenses claimed.

<b>Table H – Miscellaneous/Indirect Cost Percentage per City of Modesto</b>				
<b>Employee Name</b>	<b>Hourly Rate</b>	<b>Total Hours</b>	<b>Total Cost</b>	<b>Task #'s</b>
Beverly McCullough	\$48.7670	75.0	\$3,657.55	8
<b>Total</b>		<b>75.0</b>	<b>\$3,657.55</b>	
$\begin{aligned} &(\text{Total Misc./Indirect Costs}) / (\text{Total Payment Request}) = \\ &\text{Miscellaneous/Indirect Cost Percentage} \\ &\$3,657.55 / \$36,813.58 = 9.93\% \end{aligned}$				

The City of Modesto was awarded \$87,179.62 for TEA11-04-0011. Of that, \$7,149.00 were allocated for Miscellaneous/Indirect Costs for the entire grant cycle, less than the 10% cap



## EVALUATION OF RESPONSE TO AUDIT REPORT

During the course of the audit, the following findings were noted:

### **FINDING 1: Personnel Cost Overcharge**

The City's response stated that the personnel costs for one employee was primarily for supervisory activity, which is categorized under the Miscellaneous/Indirect Costs line-item (Task 8) of Exhibit C (Budget). The employee claimed 6.5 hours for grantee training, which is classified under Task 4 of the Budget, as shown on the payment request.

The auditors recalculated the cumulative average labor rate for all personnel working on the grant program using the 6.5 hours only. As a result, the total hourly wage rate was within the rate limitation specified in the Budget. Accordingly, Finding 1 has been resolved.

### **FINDING 2: Indirect Cost Overcharge**

The City's response, for payment request #1, stated that the miscellaneous/indirect costs (Task 8) represented 11.5% of the total expenditures claimed.

The Grant Agreement Budget specifies that miscellaneous/indirect costs shall not exceed a maximum limitation of 10% of total expenditures claimed.

The auditors computed an indirect cost rate of 12%, which exceeds the 10% allowable rate limitation by 2%. The 2% equates to an overcharge of \$647.24 in indirect costs. As a result, Finding 2, payment request #1, remains unchanged, and the City should remit the overcharged amount to the CIWMB.

The City's response, for payment request #2, stated that the miscellaneous/indirect costs for the second payment request was less than the 10% allowable rate limitation specified per the Budget.

Based on further review, the auditors determined that the audited indirect cost rate was calculated incorrectly. The City correctly computed an indirect cost rate of 9.93, which was within the 10 percent allowable rate limitation for miscellaneous/indirect costs. As a result, Finding 2, payment request #2 has been resolved.

